Learning. The Journey to Success.

McGraw-Hill Ryerson

2002 ANNUAL REPORT

Corporate Profile

McGraw-Hill Ryerson Limited has a long and illustrious history. It is built on the solid foundations of two respected publishing companies — McGraw-Hill Book Company, now known as The McGraw-Hill Companies, Inc., and The Ryerson Press.

The Company publishes and distributes educational and professional products in both print and non-print media. These products are designed to fulfill the individual needs of customers by providing effective and innovative educational and learning solutions. Product offerings include text and professional reference books, multimedia tools, and teaching, assessment, support and monitoring solutions. The Company is committed to providing Canadians with material of the highest quality for their education and enjoyment.

The Company is structured on a market-focus basis and operates in three primary market areas through the following revenue divisions:

- Higher Education: post-secondary education, including universities, and community and proprietary colleges
- School Division: secondary and elementary schools
- Trade, Professional, and Medical Division: general interest non-fiction, business and computer disciplines; training and professional development; and medical

McGraw-Hill Ryerson is a public company operated independently, in close cooperation with various divisions and international subsidiaries of its majority shareholder, The McGraw-Hill Companies, Inc. Through this cooperation, the Company benefits from its access to the significant product, market, and operational expertise of The McGraw-Hill Companies, Inc.

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April 1, 2003

McGraw-Hill Ryerson at a Glance

	KEY MARKETS	PRIMARY PROGRAMS	KEY ISSUES AND TRENDS	OUTLOOK
 Higher Education Division	Universities Community Colleges Career Colleges	Business Economics Computer and Information Technologies Science Engineering English Psychology Social Sciences E-Services	Enrolments are increasing. Growth in web-based teaching and learning solutions. Mixed-mode educational models dominate. Content-enabling technologies will evolve and accelerate acceptance of e-content. Growing interest in wireless and PDA-based applications in education. Consolidation among E-Learning companies.	Double-digit growth through a focus on integration strategy (*i*-Learning). Expansion of e-product and services offered, and e-business leadership.
 School Division	Secondary Schools Elementary Schools	Mathematics Science Social Studies Literacy English Information Science Special Education	Low growth in student enrolment. Flat government spending on education. Focus on requirement to improve standards of academic achievement and accountability. Movement towards centralized curriculum.	Increased focus on accountability for learning outcomes. Increased demand for customized products. Growing interest in multimedia products and technological support.
 Trade, Professional, and Medical Division	Booksellers Distributors Libraries Non-traditional booksellers Direct to Professionals Medical Schools	Business Computer General Interest Scientific Technical Medical Training	Dominance of major bricks and mortar and online book retailers. Demand for technical and professional information in all formats. Reduced demand for computer books. Growth in medical student enrolment. Competition from online retailers and U.S. wholesalers.	Increasing purchase power of national accounts. Escalating demand for timely information. Pressure on availability, price, and service caused by the migration to online sourcing and purchasing. Industry-wide focus on supply-chain improvements.
 Chenelière/McGraw-Hill	By publishing under a joint imprint, McGraw-Hill Ryerson Limited and Les Éditions de la Chenelière are able to concurrently publish French and English editions of secondary and post-secondary titles.			

Vision

To be recognized as a leading Canadian publisher of educational resources, and information products and services for lifelong learning and enjoyment.

Mission

To be a Canadian leader in developing and marketing quality information products and services to selected educational, professional, and consumer markets through innovation and teamwork. We will provide exceptional value to customers, growth and recognition opportunities for employees, and outstanding financial performance to our shareholders.

Culture

At McGraw-Hill Ryerson, we will work together to:

- strive to exceed our customers' expectations, by recognizing and anticipating their needs
- meet challenging but achievable company objectives and financial goals, with well-planned and clearly communicated strategies
- continually improve MHR's image in the marketplace, through the promotion of creative ideas, and the development of targeted, innovative products
- encourage a winning spirit and a positive working environment through the development of supportive, appreciative, and rewarding working relationships
- create a market-driven organization
- reward creativity, innovation, and risk-taking
- recognize diversity by treating individuals with respect and dignity

Values

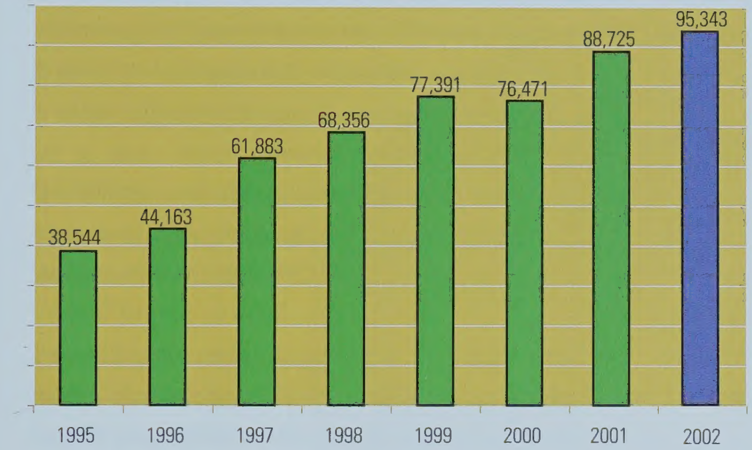
- Customer focus
- Profitability (short-term and long-term)
- Innovation and improvement of products and systems
- Commitment to quality
- Employee development/lifelong learning
- Employee recognition
- Teamwork (collaboration, shared decision making within and between divisions)
- Integrity, honesty, ethical behaviour
- Respect for individuals and their differences; high quality of work life

Financial Highlights

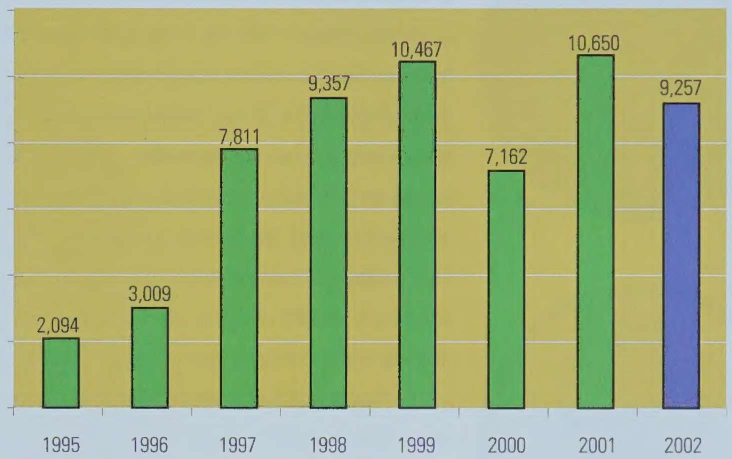
(In Thousands of Dollars, except Per Share Data)

	2002	2001	2000	1999	1998
Revenue and Earnings					
Revenue	**$ 95,343**	$88,725	$76,471	$77,391	$68,356
Net income for the year	**$ 6,156**	$ 6,631	$ 4,639	$ 5,849	$ 5,207
Cash Flow					
Cash provided by operating activities	**$ 5,602**	$23,353	$ 413	$16,060	$ 7,501
Additions to capital assets	**$ 4,058**	$ 1,571	$ 1,185	$ 968	$ 541
Net increase/(decrease) in cash during the year	**$ (7,186)**	$13,174	$ (8,120)	$ 7,872	$ 4,428
Closing Financial Position					
Total shareholders' equity	**$ 59,402**	$54,444	$48,891	$46,006	$41,155
Total assets	**$ 95,406**	$86,054	$73,821	$74,689	$62,348
Per Common Share					
Basic – net income per share for the year	**$ 3.08**	$ 3.32	$ 2.32	$ 2.93	$ 2.61
Diluted – net income per share for the year	**$ 3.08**	$ 3.32	$ 2.32	$ 2.93	$ 2.61
Dividends	**$ 0.60**	$ 0.54	$ 0.54	$ 0.50	$ 0.40
Book value	**$ 29.76**	$ 27.27	$ 24.48	$ 23.04	$ 20.61
Market value at December 31	**$ 33.25**	$ 19.00	$ 16.00	$ 22.75	$ 22.00
Financial Ratios					
% Return on average assets	**7%**	8%	6%	9%	9%
% Return on sales	**7%**	8%	6%	8%	8%

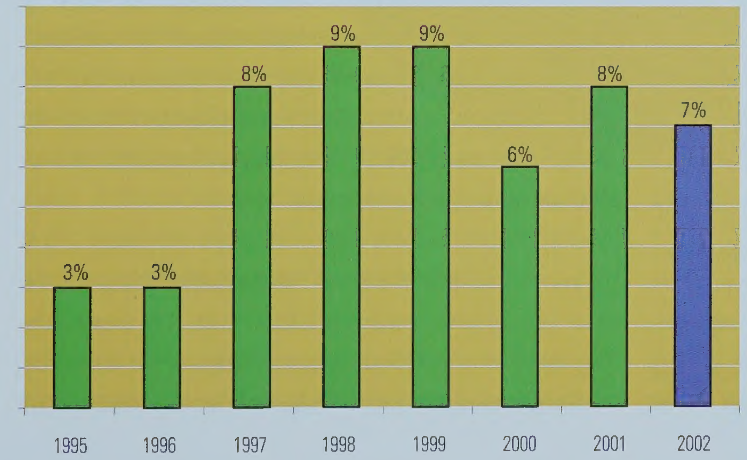
Revenue ($000)



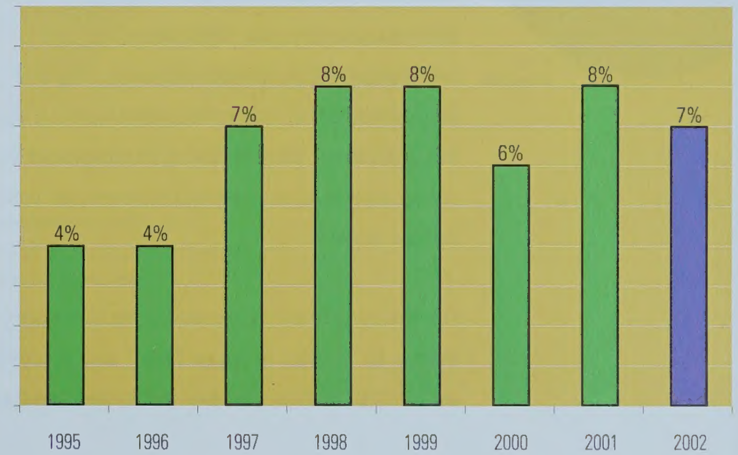
Income from Continuing Operations Before Income Taxes ($000)

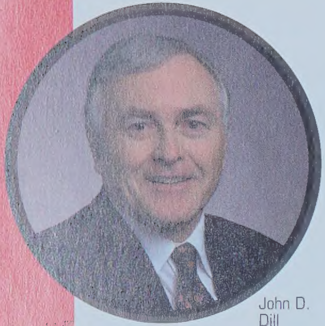


Net Income Return on Average Assets



Net Income Return on Sales





John D. Dill

H. Ian Macdonald

Message to the Shareholders

In 2002, McGraw-Hill Ryerson's sales increased by 7.7%, while profit decreased 7.2% from the prior year. These results are below our expectations. Substantially increased sales in the post-secondary and elementary-secondary markets were offset by a continued decline in the market for computer titles, and substantially higher than planned expenses for the implementation of a major information system. While we are disappointed with the efforts and results of 2002, we have shown our continued ability to build our capacity to gain market share in each of our markets. This should bring about much stronger results for 2003.

Our Higher Education Division, which serves the post-secondary market for English language titles, had a very successful year. This reflected the strong publishing program for both Canadian titles and titles from McGraw-Hill Higher Education in the U.S. As well, the Division led the industry in the innovative use of technology supporting our learning materials for both the instructor and the student.

Our School Division, which serves the elementary and secondary market for English language titles, saw a substantial increase with an 18.1% sales gain over 2002. This was the result of sales to support the final year of the new Ontario high school curriculum, significant sales of a web- and print-based title to Alberta, and two successful adaptations of existing titles for sales to the Atlantic provinces. Weaker-than-expected sales in the supplementary elementary market, sales to the elective (non-core) market in Ontario for McGraw-Hill U.S. titles, and less-than-expected sales for some of the titles for the Ontario Grade 12 market, offset these gains.

Our School Division saw a substantial increase with an 18.1% sales gain over 2002.

Our Trade, Professional, and Medical Division continued to see a decline in the market for computer titles, and reduced interest in non-fiction by the general public. While overall sales dropped by 4% in 2002, a recovery in the business and general non-fiction categories offset a double-digit drop in computing. This division was successful in diversifying its customer base with new online customers and non-traditional retailers. A focus on managing inventory with key retailers was particularly successful in reducing risk in an uncertain general book environment.

We expect to reap significant gains in 2003 from our continued investment in the post-secondary market.

The implementation of the Global Transformation Project was the major internal factor impacting 2002 results. This project, the first phase in a worldwide implementation of an Enterprise Resource Planning System (ERP System) for all of McGraw-Hill

Education, was launched in June. While the initial launch met expectations, subsequent difficulties inprocessing orders for the important July onwards sales season necessitated substantial additions to staff to manually correct deficiencies in the system. These costs have negatively affected 2002 results.

The difficulties with the system have been the focus of Canadian and U.S. McGraw-Hill staff for much of 2002. The addition of a dedicated Project Manager based in our offices in Whitby, and increased expenditures for temporary technical staff have brought resolution of many issues. Given the momentum from these efforts and the knowledge gained about the system over the last six months of 2002, we expect to reduce expenses associated with the implementation of this system and gain a much more effective order processing, inventory, and financial system in place for 2003.

We expect to reap significant gains in 2003 from our continued investment in the post-secondary market as a result of the double-cohort enrolment increase in Ontario colleges and universities. This is a major market opportunity that we have been anticipating for three years. We are poised to capitalize on this with an innovative, service-oriented marketing strategy, experienced sales, editorial and marketing staff, and an excellent management team in our Higher Education Division. Our School Division will focus on selective publishing targets and develop titles for major curriculum change opportunities in 2004 onwards. Our Trade, Professional, and Medical Division will benefit from stabilization of the computer and business book market, and improvements in the supply chain. In summary, we expect 2003 to be a year of return to solid growth in sales and profits.

Corporate Governance

A primary concern of the Corporation's Board of Directors has been, and will continue to be, the effective governance of McGraw-Hill Ryerson Limited on behalf of shareholders. The Corporation's Corporate Governance Committee meets regularly to review corporate governance matters. A review of the Corporation's governance policies begins on page 8 of the Management Information Circular that accompanies this Annual Report.

H. Ian Macdonald, O.C., LL.D., D.UNIV., D.LITT.
Chairman of the Board of Directors

John D. Dill
President and Chief Executive Officer

Higher Education Division

Sales Performance

The year 2002 proved to be another successful year for the Higher Education Division. For the fourth year in a row, the Division achieved an increase in net sales. The Division's success this year was largely driven by a 14.5% growth from the Canadian list, and by an outstanding performance by the Division's Humanities, Social Sciences, and Languages imprint team who delivered 22% growth over the prior year. The key to success in 2002 continues to be the Division's outstanding sales, marketing, and editorial talent, combined with our unique faculty support and services program, leading educational technology products, the contributions of the *i*-Learning Leadership Council, and our overall innovation agenda.

Leading Service and Support Solutions

In December 2002, the Division completed its fourth national study on student success and the role of technology. One of the key findings in this year's study was the importance of faculty support, and professional development in encouraging the development of best practices in teaching, and enabling successful learning outcomes. The double-cohort phenomenon in Ontario resulted in an even greater demand for faculty-oriented, professional development as many new faculty are recruited into the higher education system. Having anticipated this trend, the Higher Education Division has been developing a suite of faculty support and development services over the past few years. These services include Technology and Teaching conferences, teacher training seminars, and CMS support.

The Higher Education Division has been developing a suite of faculty support and development services over the past few years.

Leading Technology Solutions

There is no longer any debate about *if* there is a role for technology in the teaching or learning process. The debate is now focused on *what* technologies are most effective under various circumstances. Our response to this trend is continued expansion and refinement of our educational technology solutions and products for both students and faculty. Our online learning centres are beginning to offer premium content. We provide Web CT or Blackboard content cartridges for all titles. A new version of our Primis Online custom content system launched in February 2003 enables professors to create their own custom book or e-book from more content sources than ever before including many new service features. Our own course management system, PageOut, continues to expand its subscriber list. In 2002, we also launched several assessment-based products including GradeSummit, SimNet, Lyryx, and Alex, all of which were well received by the marketplace.

Innovation

The Higher Education Division is committed to innovation focused on increasing productivity, teaching success, and student satisfaction. In 2002, we completed our applied research project on the possibilities of providing course content over a wireless network to PDA. We plan to extend this environment to five additional sites in 2003. In 2003, we will begin experimenting with Tablet PCs for our sales force and will also extend our knowledge into the marketplace. We will also launch learning object libraries for several key subject areas. We will also continue to work with our Wireless Industry Consortium to expand the range of teaching techniques and options available to faculty on a wireless campus.

Canadian Publishing Program

The Canadian publishing program published 48 titles this year. The program exceeded its goal and generated a 14.5% growth over the prior year. Outstanding performance by marquee titles such as Berkowitz, *Marketing*, 4/e; Langan, *College Writing Skills*, 3/e; Jerome, *Business Mathematics in Canada*, 4/e; Ross, *Fundamentals of Corporate Finance*, 4/e; McShane, *Canadian Organizational Behaviour*, 4/e, and Larson, *Fundamental Accounting Principles*, 10/e, led the program.

We continue to strengthen our commitment to our Canadian publishing program for both print and media tech products by adding staff to our media tech division and to our editorial editing team.

Once again, several members of the management team were recognized by the International Publishing Group of The McGraw-Hill Companies, Inc., and received a number of awards including International Editor of the Year, Marketing Manager of the Year, International Rep of the Year, and Best Revision.

Business Uncertainties

All educational publishers will be looking to the double-cohort effect in Ontario to drive additional growth in 2003, and McGraw-Hill Ryerson is no exception. The double cohort refers to the fact that the number of graduates applying to post-secondary institutions will double in 2003 and 2004 resulting from the phasing out of Grade 13 in Ontario. The post-secondary system is also seeing enrolment increases from the "echo boom" generation now entering the post-secondary system across Canada. While enrolments will increase for 2003, we need to continue to be vigilant about substitutes for texts, including P2P piracy, course packs, and illegal photocopying, all of which can dampen the positive effect of the double cohort on sales.

Outlook

The Higher Education Division expects strong overall sales growth for the next two years because of expectations of an increase in enrolment and a strong Canadian list in 2003. We expect the further development of our *i*-Learning Sales Specialists and the *i*-Learning program to have a significantly positive impact on our results in the coming years.

Key Products and Services for 2002 were as follows:

1. Berkowitz, *Marketing*, 4/e
2. Langan, *College Writing Skills*, 3/e
3. Jerome, *Business Mathematics in Canada*, 4/e
4. Ross, *Fundamentals of Corporate Finance*, 4/e
5. McShane, *Canadian Organizational Behaviour*, 4/e
6. Larson, *Fundamental Accounting Principles*, 10/e

School Division

Sales Performance

School Division sales and contribution increased over 2001 primarily as a result of two separate textbook funding initiatives by the Ontario Ministry of Education and Training. The first initiative, valued at $15 million, supported the implementation of the new Grade 12 curricula in Science, Mathematics, and English. The second initiative, estimated at $55 million over the 2002–2003 school year, was in support of all courses affected by curriculum reform over the past five years. Our sales increase in Ontario was broadly based, including 2002 publications such as *Individuals and Families in a Diverse Society, Mathematics of Data Management, The Act of Writing, Legacy: The West and the World,* as well as a diversity of titles from Glencoe/McGraw-Hill and McGraw-Hill Higher Education. The expansion of our science resources into the Alberta market with *SCIENCEFOCUS 9* and *science.connect 1*, contract publication was also highly successful — the former capturing a 55% market share, and the latter doubling our sales projections for the year.

Leading Educational Solutions

With the publication of *science.connect 1*, produced on contract for Alberta Learning — the School Division became the first Canadian publisher to produce a fully-integrated print and electronic student resource. Also in collaboration with Alberta Learning we launched a pilot for an online version of *SCIENCEFOCUS 9*. The usage and customer feedback from this "e-book" pilot will serve as a basis for developing future business models for electronic delivery of student materials. Our market research continues to focus on understanding the role and value of technology in K–12 classrooms, and market receptivity to investing in a variety of applications. This research is facilitated by our ability to "test" solutions developed by all McGraw-Hill business units. During 2002, we were also able to leverage prior publishing investments into the development of customer resources. Specifically, we used assets from our Grades 11 and 12 biology texts to develop a single, custom published student text for Newfoundland and Labrador. The Division's alliance with Chenelière/McGraw-Hill resulted in the concurrent publication in both English and French of three textbooks for the Ontario Grade 12 curriculum — *Biologie 12, Chimie 12, Mathematiques et finances personnelles* — and one for the Alberta science market — *Convergence 8*. The Company's ability to present products in both official languages will continue to be a distinctive long-term competitive advantage and the School Division will pursue this strategy in 2003.

Resource development will integrate print and electronic formats to support both teachers and learners.

Business Uncertainties

While total funding for learning resources is expected to remain stable for 2003, there are risks in two markets: British Columbia and Ontario. In British Columbia, targeted specific funding for the acquisition of learning resources from the Ministry of Education has been discontinued. This means that individual jurisdictions may allocate spending in a manner that best meets their performance improvement targets. In Ontario, our largest market, we do not anticipate a new infusion of learning resources funding to replace the $15 million investment targeted for Grade 12 textbooks. However, we do estimate that approximately 50% of the $55 million injection remains unspent. Plans for curriculum renewal for 2003 and beyond is currently in flux, with most provinces expected to establish key milestone dates within the next six months.

Canadian Publishing Program

In 2003, the School Division will focus on three areas: original publishing, adaptations of learning resources from various McGraw-Hill business units, and market research into curriculum revisions scheduled for 2004 and 2005. Original publishing will include *SCIENCEFOCUS 10* and *science.connect 2* — both extensions to existing series published for the Alberta market — *Physics 11/12* for Nova Scotia; and *Applied Mathematics 9* for Ontario. Market research and editorial work in

2003 will focus on developing resource proposals for comprehensive Grades K–9 social studies curriculum revision in Alberta and Atlantic Canada; Grades 7 and 8 mathematics resources for Ontario; a Grades K–6 line of supplemental mathematics resources; Grades 7–10 science resources for British Columbia; and biology, chemistry, and physics resources for Alberta. Resource development will integrate print and electronic formats to support both teachers and learners.

Outlook

Enrolment in the school market is expected to decline marginally as a consequence of the reduction of the Ontario high school program from five years to four years. The greatest uncertainty resides in what mechanism, if any, Ontario will establish to ensure that the funds allocated for learning resources are spent in the manner intended. The greatest change in the market lies in Ontario where rather than resource needs being focused in a few specific areas as a result of staged curriculum reform, these needs will vary widely by jurisdiction. The broad scope of the electives publishing program at Glencoe/McGraw-Hill, combined with a strong list from McGraw-Hill Education, will place the School Division in a strong position to support a wide range of courses. The current focus on literacy and numeracy results in the K–6 panel will continue to offer opportunities for the diverse range of products available from SRA/McGraw-Hill and the Wright Group/McGraw Hill.

The best-selling titles in the School Division for 2002 were as follows:

1. Holloway/Holloway/Witte/Zuker, *Individuals and Families in a Diverse Society*
2. Edwards/Siler/Martin/Liland/Haley/Chetty/Grace/Brown/Clancy/Jolliffe, *SCIENCEFOCUS 8*
3. Canton/Erdman/Irvine/Lim/McLaren/Meisel/Miller/Speijer, *Mathematics of Data Management*
4. Jasper/Lindenberg/Martin/Goldie/Makar/Edgar, *SCIENCEFOCUS 9*
5. Knill/Dottori/Collins/Cornwall, *MATHPOWER 7*
6. Knill/Dottori/Collins/Forest/Kestell/Macdonald, *MATHPOWER 8*
7. Knill/Dottori/Timoteo/Baxter/Fawcett/Forest/Kennedy/Pasko/Tarini, *MATHPOWER 9 W/E*
8. Brosseau/Byers/Erdman/McCudden/Mehler/Miller/Perivolaris/Saarimaki, *Mathematics: Preparing for College & Apprenticeship*

Trade, Professional, and Medical Division

Sales Performance

The Trade, Professional, and Medical Division faced a changing Canadian retail marketplace in 2002. This was the first full year of operation for Indigo Books & Music Inc. ("Indigo") — the merger of Chapters and Indigo was approved in July 2001. Amazon.com launched its Canadian operation — amazon.ca — in July 2002. The ongoing economic slowdown, particularly with the technology sector, took its greatest toll on the computing and investing categories.

Overall, the Canadian Trade market showed growth buoyed by the strong performance of fiction. In non-fiction, improvements in business and general interest categories were offset by the double-digit drop in computing. MHR, with a non-fiction list weighted toward business and computing, was able to minimize the exposure and hold net sales constant with the prior year. We found consumer spending remained very similar to 2001, with continued political and economic uncertainty translating to cautious purchases.

The Division continued to diversify its customer base. This was a key strategy for 2002 to provide us with greater flexibility. We delivered a 40% increase in sales to special sales and alternate channels — specifically non-traditional book retailers such as Costco. Sales to the library channels (both library distributors and direct to libraries) also increased significantly.

We benefited from the strength and expansion of McGraw-Hill's U.S. list. The breadth of their general interest, health, and consumer electronics products was key to our success in new and established channels. McGraw-Hill released the 17th edition of their flagship reference product, *The Encyclopedia of Science and Technology*. The business category rebounded in the second half of the year, with leadership and small business titles leading the way. The computing category remained soft; however, consumer-oriented titles such as *How To Do Everything with Your Digital Camera*, sold briskly. The Medical Group delivered increases, with new print releases in Lange's *Current Diagnosis and Treatment* Series and the additions to the online subscription service: *Access Medicine*.

Because of market uncertainty we focused on cost containment throughout the year. In addition, we worked closely with our key trade, professional, and medical retail accounts to improve inventory returns and reduce inventory exposure. In 2002, our returns dropped 6% as a result of the improved inventory management.

Business Uncertainties

- The current political uncertainty will affect retail sales; however, it is difficult to project to what degree. Retailers, both traditional book retailers and general retailers, represent the bulk of our sales.
- The "if and when" computer book market recovery is tied closely to how quickly the technology sector recovers.
- The online book retail market in Canada — the players, the size.

We delivered a 40% increase in sales to special sales and alternate channels.

Canadian Publishing Program

In 2002, the Division focused on the personal finance, small business, and management categories. It produced best-sellers including: *The 30-Minute Tax Guide* by Evelyn Jacks, *Building A Dream* by Walter Good, and *The Privacy Payoff* by Ann Cavoukian and Tyler Hamilton.

The success of the Trade, Professional, and Medical Division's Canadian program in 2002 came from a strong frontlist supported by a solid backlist. In addition, we expanded our

special sales and emerging channel business. Building on McGraw-Hill's strengths in the global marketplace, the Division increased translation licensing, e-rights licensing, and export deals for its list. In addition, McGraw-Hill U.S. launched the first U.S. adaptations of McGraw-Hill Ryerson Trade titles.

Outlook

Fiscal 2003 has the potential to be another challenging year with limited recovery in the computing category projected to offset gains in medical, business, and general interest. We will remain flexible, continue to closely control expenditures and be ready to redirect resources to take advantage of the channels and product categories that can produce the best returns.

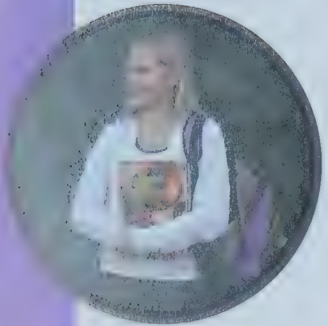
The Trade, Professional, and Medical Division plans to improve its presence in the market and improve profitability through the following initiatives:

- Leveraging Oracle system to enhance supply chain effectiveness and create customer value;
- Investing in strategic, general interest, computer, and business book marketing;
- Leveraging current success with the Medical list with print and digital products;
- Strengthening the relationship with key accounts while continuing to diversify the customer base;
- Identifying and executing cost containment opportunities.

Key products in the Trade, Professional, and Medical Division were as follows:

1. McGraw-Hill, *Encyclopedia of Science & Technology*, 20/e
2. Gittleman, *The Fat Flush Plan*
3. Goleman, *Primal Leadership*
4. DiPiro, *Pharmacotherapy*, 5/e
5. Meyers, *A+ Certification*
6. Schaum's Outline, *French Grammar*
7. Jacks, *The 30-Minute Tax Guide*
8. Harrison/Braunwald/Fauci/Kasper/Hauser/Longo/Jameson, *Principles of Internal Medicine*, 15/e

Chenelière/McGraw-Hill ("DLC")



Sales Performance

Chenelière/McGraw-Hill enjoyed an excellent year in 2002 with French translations of successful titles from McGraw-Hill Ryerson's School Division: *Biology 12, Chemistry 12*, and *Mathematics: Making Financial Decisions*. These titles support the implementation of new Grade 12 curricula by the Ontario Ministry of Education. The French translation of *SCIENCEFOCUS 8 (CONVERGENCE 8)* for the implementation of Alberta's new science curriculum also enjoyed great success.

DLC's Higher Education Division had outstanding results with the translation of the new 2-volume edition of Chang's *Chemistry*; Rayport/Jaworski *Introduction to e-Commerce*; Libby/Libby/Short, *Financial Accounting*; and the 7th French Edition of Larson's *Fundamental Accounting Principles*. Once again this year, sales of McGraw-Hill English titles to French institutions exceeded $2 million.

Following an alliance established in 1995 between Les Éditions de la Chenelière ("DLC"), McGraw-Hill Ryerson Limited and The McGraw-Hill Companies, Inc., DLC, a non-related, privately-held, independent company based in Montreal, publishes French-language products under the joint Chenelière/McGraw-Hill imprint.

Leading Technology Solutions

Chenelière/McGraw-Hill is a leader among Québec publishers. Its Higher Education Division launched many new products with technology components. *Vendeur* and *Clic-moi* are tutorials aimed at students in sales and computing. *Marketing*, 4/e, by Pettigrew and Turgeon, contains a complete technology package including a computer simulation, over 200 PowerPoint® slides, and an electronic newsletter sent to teachers three times each semester. Students can find supplementary information, links to other Web sites, exercises, and real-life examples with which they can work. Its Professional Division has had a Web site component for all new books for the past three years.

Business Uncertainties

Chenelière/McGraw-Hill is committed to developing original resources for the implementation of the new curriculum supporting the ongoing education reform in Québec at the elementary level. These resources, in mathematics, social studies, science, and religious education represent huge investments. The Québec Ministry of Education has now committed funding for the purchase of new educational resources to support the reform. The Ministry of Education has announced funding of $352 million over the next six years, but it is not clear if the funding will be targeted only for school books. As an example, targeted funding in Ontario for Grade 12 learning resources in French was not sufficient in 2002 to support the purchase of all resources for all students.

DLC's Higher Education Division is facing curriculum changes at the CEGEP level, which are being implemented in administration, social studies, nursing, and computer programs.

Chenelière/McGraw-Hill has had consistent growth in exports over the last five years.

Canadian Publishing Program

In 2003, DLC's School Division will translate eight titles from McGraw-Hill Ryerson and ten from Glencoe/McGraw-Hill following a successful selection of titles from a special Ontario Ministry of Education call for French resources for Grades 11 and 12. This initiative will make it possible for the first time to publish titles for elective and vocational courses for a small market.

With the publication of the French version of *SCIENCEFOCUS 9* in 2003, the Alberta junior high school science program will be completed. Higher Education will pursue its translation program for McGraw-Hill titles with Garrison's *Introduction to Managerial Accounting*; Hilton's Second Edition of *Comptabilité financière avancée*; O'Brien's *Introduction*

aux systèmes d'information (Second Edition); Berkowitz's *Marketing* (Third Edition); *Pouvoir et décision* from Shively (Second Edition), and finally a classic: Beer/Johnston, *Vector Mechanics for Engineers*.

Outlook

Chenelière/McGraw-Hill will continue to build its School publishing program, in part through leveraging McGraw-Hill Ryerson's excellent list. As well, the Glencoe/McGraw-Hill list will be helpful for publishing resources in French for elective and vocational courses. The Wright Group product line will assist the Company in entering the K–3 literacy market with French adaptations.

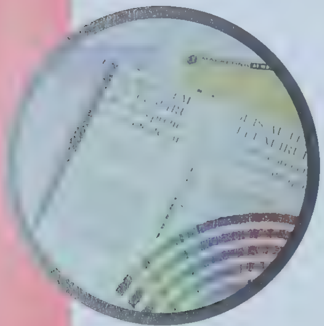
The Higher Education Division is looking at the McGraw-Hill Ryerson Canadian adaptations program to develop a list of new titles that will hopefully be as successful as Larson will be for us in the next four years. New products will also be developed for the new nursing curriculum in conjunction with local authors. CHENELIÈRE/DIDACTIQUE, the teacher reference list, will continue to improve and be a leader in helping teachers to implement new strategies in the classroom.

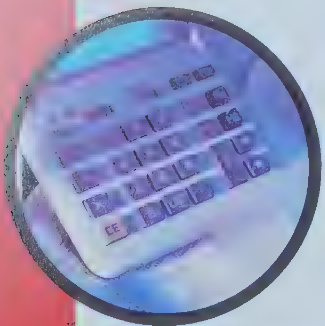
Chenelière/McGraw-Hill has had consistent growth in exports over the last five years. Increased exports to Europe and Africa are anticipated as the relationship with distributors matures. The Higher Education Division is also working on several co-editions with French, Belgian, and Swiss publishers.

Key Product Offerings for 2002 were as follows:

1. Blake et al., *Biologie 12*
2. Mustoe et al., *Chimie 12*
3. Brosseau et al., *Mathématiques et finances personnelles*
4. Chang, *Chimie*, 2 édition
5. Stevenson, *La gestion des opérations*
6. Rayport, *Commerce électronique*

Value-added Support





Editorial, Design, and Production Department

McGraw-Hill Ryerson's Editorial, Design, and Production (EDP) Department provides project management, financial analysis, technical production, and manufacturing services to the Editorial Divisions for a wide variety of product offerings. In 2002, EDP oversaw the production of 260 new titles and 249 reprints. The Department is organized along divisional lines, providing support for the Higher Education, School, and Trade Divisions. Budgets are set based on preliminary planning sessions with Editorial and Marketing to determine end-product specifications and schedules. Once the development process is completed, the project is handed over to Production. Strict adherence to established budgets and timelines is stressed throughout the production process.

Strict adherence to established budgets and timelines is stressed throughout the production process.

Business alliances with key vendors allow for competitive pricing and ensure the highest quality of materials for McGraw-Hill Ryerson's products. These alliances help to guarantee the timely delivery of products to the Company's warehouse for distribution to customers. In addition, a close working relationship with its majority shareholder provides McGraw-Hill Ryerson with the opportunity to leverage the buying powers and established best practices of a multi-billion dollar corporation.

Information Systems and Technology (IS&T)

In the history of technology at McGraw-Hill Ryerson, 2002 was arguably the most exciting and challenging year. Changes in systems and infrastructure touched every aspect of the business from finance through to the warehouse, dramatically altering the flow of business processes, and the orientation of our operations. From a technological perspective, changes to the infrastructure will result in a robust and flexible local area network solution that is truly best of breed. Further, cost-effective enhancements to our wide area network have allowed us to fully leverage the power of these new systems on a backbone that is fault tolerant, ensuring system reliability.

Changes in systems and infrastructure touched every aspect of the business.

A tremendous effort was exerted by the business and technology groups who worked in conjunction to design, configure, and test the new ERP system. This application will allow McGraw-Hill Ryerson to better serve customers' needs in our traditional businesses as well as open doors to expanded opportunities in the digital world. Other I.T. initiatives in 2002 included: an enhanced data warehouse system promoting business intelligence in support of market awareness and growth opportunities; expanded e-business capability focused towards the launch of a B2C Web site in 2003 (as a springboard to a highly efficient and profitable B2B Web site); and advanced EDI capability including 810 functionality.

As we move forward in 2003, we expect to refine our new systems with one objective in mind: to better serve our customers.

Customer Satisfaction Division

The Customer Satisfaction Division provides customer service and logistical support to ensure a high level of service to our customers. With this objective in mind, activities in 2002 focused on the physical retrofit and implementation of a Warehouse Management System (WMS), followed by the initial rollout of the global Enterprise Resource Planning (ERP) initiative.

The WMS implementation has resulted in a fully-automated warehouse operation. Among the enhancements deployed, carton content labels, and electronic carrier tracking have proven to provide the greatest

value to our customers. Additional functionality in support of expanded electronic commerce will soon be available for our technologically-advanced customers.

The Enterprise Resource Planning System (ERP System) has revolutionized McGraw-Hill Ryerson's approach to meeting customer requirements. This enormous undertaking has necessitated the review and recreation of virtually all processes, internal reports, and customer-facing documents. With the success of the initial launch, focus can now shift to expanding our service offerings, including customer self-direct alternatives, and enhancing information flows.

Electronic carrier tracking have proven to provide the greatest value to our customers.

Human Resources

During the year, McGraw-Hill Ryerson reinforced its commitment to its culture and values through performance management/ compensation/reward programs, and employee development and assistance programs.

The Company has made significant gains in improving various aspects of its compensation programs. In February 1998, the first bonus payment was paid to all employees who were not on an individual incentive plan, allowing them to share in the Company's improved performance as a result of their efforts. Except for 2000, payouts have been made every year when the Company had exceeded its profit goals.

Management's Discussion and Analysis

Financial Results (In Thousands of Dollars)

	2002	2001	2000	1999	1998
Total sales less returns ("sales")	**$93,279**	$86,599	$74,985	$75,992	$66,732
% increase/(decrease)	**7.7%**	15.5%	(1.3%)	13.9%	9.5%
Higher Education sales	**50.5%**	52.3%	50.2%	46.7%	50.3%
School sales	**37.3%**	34.0%	32.7%	28.4%	28.0%
Trade, Professional, and Medical sales	**12.2%**	13.7%	17.1%	24.9%	21.7%
Imported product sales	**54.5%**	52.1%	54.6%	56.4%	56.3%
Canadian and adaptations sales	**44.2%**	45.8%	42.7%	36.9%	37.9%
Agency sales	**1.3%**	2.1%	2.7%	6.7%	5.7%
Total expenses	**$86,086**	$78,075	$69,309	$66,924	$58,999
% of net sales	**92.3%**	90.2%	92.4%	88.1%	88.4%
Net income	**6,156**	6,631	4,639	5,849	5,207
% of net sales	**6.6%**	7.7%	6.2%	7.7%	7.8%
Total assets	**$95,406**	$86,054	$73,821	$74,689	$62,348
Return on assets %	**6.6%**	7.7%	6.3%	7.8%	8.4%

Revenue

McGraw-Hill Ryerson had solid sales growth of 7.7% in 2002, with sales of $93.3 million, compared to $86.6 million in 2001.

McGraw-Hill Ryerson's Higher Education Division enjoyed another year of strong sales increase and gained market share. Sales grew by 8.6%, after adjusting 2001 sales base for the transfer of the Glencoe post-secondary line to School Division. School Division sales, which include the first year sales of The Wright Group products, increased by 18.1%. The moderate success of this Division with the Grade 12 science and mathematics titles published in 2002 for the Ontario curriculum did not match the huge success with the Grade 11 titles published in 2001 for Ontario in the same discipline areas. Trade, Professional, and Medical sales declined 4.1% from 2001 sales of $11.9 million to $11.4 million. While sales returns, unusually high in the last two years have stabilized and improved in 2002, demand for business and computer books continued to be weak and did not recover at the same pace as did general interest books and fiction titles.

Canadian publications and adaptations decreased from 45.8% to 44.2% because of the reduction of the Canadian publishing program in the Trade, Professional, and Medical Division and the School Division's

products did not match the success of their titles in the previous year. Product imported from The McGraw-Hill Companies, Inc. increased 13.3% from 2001 and made up 54.5% of total sales. The Agency sales continued to decrease to 1.3% from 2.1%, following the decrease in the trade market.

Expenses

In 2002, total expenses increased 10.3% to $86.1 million from $78.1 million in the prior year. Expenses as a percentage of net sales increased to 92.3% in 2002 from 90.2% in 2001. Overall, this increase is consistent with variable expenses related to increased sales, and by the increase of overhead expenses due to the implementation of the ERP System.

Higher Education Division enjoyed another year of strong sales increase and gained market share.

Operating expenses, comprised of cost of product and royalties, increased to $45.1 million from $43.5 million. This 3.9% increase resulted from the combination of the 7.7% increase in overall sales partially offset by the stronger Canadian dollar in the latter part of the year, which improved our margins.

Editorial, selling, general, and administrative expenses increased 13.8% to $32.5 million from $28.6 million in 2001. These expenses are 34.8% of sales in 2002 compared to 33.0% in 2001. In addition to the year-over-year inflationary increase and normal editorial and selling expenses to drive sales growth, we incurred additional expenses related to the implementation of the ERP. These expenses were mainly labour costs to prepare for its installation, and to stabilize the operating environment following the launch in 2002.

Prepublication amortization increased 39.1% to $6.0 million from $4.3 million in the prior year. This increase follows the investment in Canadian publishing programs in the Higher Education and School Divisions of traditional as well as digital products. Depreciation expense increased 26.2% over the prior year to $1.8 million from $1.4 million, because of the capitalization of the new operating system.

Liquidity and Financial Resources (In Thousands of Dollars)

	2002	2001	2000	1999	1998
Cash	**$14,121**	$21,307	$8,133	$16,253	$8,381
Cash flow from operations	**5,602**	23,353	413	16,060	7,501
Prepublication investment	**7,532**	7,530	6,268	6,222	1,733
Capital asset additions	**4,058**	1,571	1,185	968	541
Total assets	**95,406**	86,054	73,821	74,689	62,348
Working capital	**23,881**	22,744	20,748	21,478	16,725
Accounts receivable	**18,372**	15,804	15,866	15,788	13,343
Inventory	**15,227**	9,465	9,863	11,006	10,544

Despite the Canadian dollar strengthening near the end of the year, the foreign exchange loss of $0.5 million is higher than the $0.3 million in 2001, due to lower rates during our largest purchasing season. Lower cash levels led to a higher interest expense in 2002 of $0.1 million up from $0.02 million in the prior year.

The effective tax rate decreased to 33.5% from 37.7% in 2001, due to the drop in future tax rates by the Federal and Provincial governments. The change in mix between the assets and liabilities on which the deferred taxes are based is responsible for this decrease.

Cash decreased in the year by 33.7% to $14.1 million from $21.3 million in 2001 because of the increase in dividends, the investment in capital assets of the new operating system, and the decrease in working capital.

Inventory levels increased by 60.9% in the year resulting from the increase in imported titles to ensure stocks were in place to meet demand as the inventory module of the new system was launched. The number in months' supply on hand increased over last year.

There was an increase in accounts receivable to $18.4 million from $15.8 million in the prior year. The Company's collection performance is closely monitored in accordance with credit terms and industry standards. Aging has improved over the year.

Prepublication costs have increased 11.3% to $14.7 million in 2002 from $13.2 million in 2001 because of the increase in titles published by Higher Education, and the continued increase in grade levels published in the School Division.

Capital asset purchases of $4.1 million relate to the implementation of the new ERP system and other equipment. These purchases are in line with the continuing goal of leveraging new technologies.

Implementation of the ERP System began in mid-2002.

The Company has made great strides in researching, developing, and marketing innovative learning resources.

Risks and Uncertainties

Implementation of Enterprise Resource Planning System (ERP System)

Implementation of the ERP System began in mid-2002. Additional operating expenses were incurred throughout 2002 as the Company went through different phases of implementation. Some of the expenses will continue into 2003 as the new system is being stabilized. Other related expenses are required before new functionalities are put in place in 2003 and beyond.

Educational Funding Constraints

While educational funding has been stable in most provinces since 1998, the Province of Ontario will not be maintaining the levels of funding of recent years. To help overcome the impact of public funding reductions, the Company has made great strides in researching, developing, and marketing innovative learning resources. These resources meet specific learning needs of students while reducing the number of required teacher-contact hours.

Format and Delivery of Future Learning Resources

The advent of new media is affecting the publishing industry in several ways: sales of non-print materials have begun to increase as a percentage of total sales; competition is appearing from nontraditional publishers, such as high-technology firms; an increase in electronic piracy over the Internet; and, most importantly, the format of future learning resources remains uncertain.

In response to these evolving technological changes, all of the Company's divisions are developing innovative, non-print products as well as working on ways to prevent piracy. Further investment into this market will depend on demand, cost, revenue management, and the acceptance of new technology by our customers.

Competition from Foreign-Based Virtual Bookstores

The advent of virtual bookstores in the United States has created an avenue for Canadian consumers and students to purchase published product directly from foreign retailers, thus eliminating the Canadian marketers and distributors of the product. In particular, students will be capable of accessing second-hand product, not previously available in Canada. Canadian virtual bookstores, on the other hand, have proven to be effective retailers of McGraw-Hill Ryerson product and the Company is aggressively pursuing this market segment.

Dependency on Superstores

With the merger of the Chapters and Indigo chains in 2001, the book retailing climate in Canada changed noticeably. While these entities account for a small percentage of the Company's total business, their ongoing influence increases sales volatility.

Foreign Exchange

A significant portion of the Company's purchases is incurred in U.S. dollars. As a result, major exchange-rate fluctuations between the Canadian and the U.S. dollars will either positively or negatively affect net income.

	2000	2001	2002				
	Dec. 31	Dec. 31	Jan. 1	Mar. 31	June 30	Sept. 30	Dec. 31
Exchange Rate	0.667	0.628	0.626	0.627	0.658	0.630	0.633

The Company prudently uses hedging products to reduce the risks associated with currency-rate fluctuations and does not speculate in the market. It uses zero-cost, range-forward contracts that fix the transaction rate to a specific trading range.

Outlook

During 2002, McGraw-Hill Ryerson continued to capitalize on the business and operational foundations laid over the last several years. With a significantly improved local publishing program, an increased array of imported product, and a new operating system, the Company achieved sales growth in a challenging year.

The Company has coordinated all elements in a common strategic focus. Sales, marketing, editorial, production, warehouse, order fulfillment, customer satisfaction, finance, technology, and human resource functions are all working in concert to create an improved operation.

Fiscal 2003 is projected to be a stable year in which the Company leverages its competitiveness to sustain its recent revenue growth rates. The Company will benefit from the expansion of its product offerings in discipline areas in which it has not previously had a presence, and from the growth in student enrolments at universities and colleges.

The marketplace still faces a manageable degree of uncertainty. Funding availability, product format, and delivery methods are all subject to various levels of change. To meet these challenges, the Company continues to invest in people and technology. Our goal is to meet the informational needs of our customers by developing innovative educational solutions, providing unparalleled customer service, and fully utilizing the vast array of resources of The McGraw-Hill Companies, Inc.

Management Report

To the Shareholders of McGraw-Hill Ryerson Limited

The financial statements and all the information in this Annual Report were prepared by the management of McGraw-Hill Ryerson Limited, which is responsible for their integrity and objectivity.

These financial statements — prepared in conformity with appropriately chosen Canadian generally accepted accounting principles, and including amounts based on management's best estimates and judgments — present fairly McGraw-Hill Ryerson's financial condition and the results of the Company's operations. Other financial information given in this report is consistent with these financial statements.

McGraw-Hill Ryerson's management maintains a system of internal accounting controls designed to provide reasonable assurance that the financial records accurately reflect the Company's operations and that the Company's assets are protected against loss. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of these controls should not exceed the expected benefits in maintaining these controls. These controls further assure the quality of the financial records in several ways: the careful selection and training of management personnel; maintaining an organizational structure that provides an appropriate division of financial responsibilities; and communicating financial and other relevant policies through the Corporation.

The financial statements in this report have been audited by Ernst & Young LLP, Chartered Accountants, in accordance with Canadian generally accepted auditing standards. The independent auditors were retained to express an opinion on the financial statements, which appears on page 23.

McGraw-Hill Ryerson's Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee, which meets periodically with management and the independent accountants to ensure that each group is carrying out its respective responsibilities. In addition, the independent accountants have full and free access to the Audit Committee and meet with it with no representatives from management present.

John D. Dill
President and
Chief Executive Officer

Poling Y. Chu
Executive Vice President
and Chief Financial Officer

Auditors' Report

To the Shareholders of McGraw-Hill Ryerson Limited

We have audited the balance sheets of McGraw-Hill Ryerson Limited as at December 31, 2002 and 2001, and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada
February 21, 2003

Balance Sheets

(In Thousands of Dollars)

As at December 31	2002	2001	2000
Assets			
Current			
Cash	**$14,121**	$21,307	$ 8,133
Accounts receivable (net of allowance for book returns of $6,127 (2001 — $5,672; 2000 — $4,634) (note 8)	**18,372**	15,804	15,866
Due from affiliated companies (note 2)	**6,400**	3,395	7,197
Inventories (note 11)	**15,227**	9,465	9,863
Prepaid expenses and other	**360**	394	736
Income taxes recoverable	**1,639**	—	427
Future income tax assets (note 5)	**2,187**	2,350	1,611
Total current assets	**58,306**	52,715	43,833
Capital assets, net (note 3)	**21,990**	19,702	19,533
Other assets, net (note 4)	**15,110**	13,637	10,455
	$95,406	$86,054	$73,821
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued charges (note 11)	**9,793**	8,160	7,245
Income taxes payable	**—**	2,085	—
Due to parent and affiliated companies (note 2)	**24,632**	19,726	15,840
Total current liabilities	**34,425**	29,971	23,085
Future income tax liabilities (note 5)	**1,579**	1,639	1,845
Total liabilities	**$36,004**	$31,610	$24,930
Commitments (note 6)			
Shareholders' Equity			
Share capital			
Authorized 5,000,000 common shares			
Issued and outstanding 1,996,638 common shares	**1,997**	1,997	1,997
Retained earnings	**57,405**	52,447	46,894
Total shareholders' equity	**59,402**	54,444	48,891
	$95,406	$86,054	$73,821

On behalf of the Board

H. Ian Macdonald, O.C., LL.D., Director

John D. Dill, Director

(See accompanying notes to financial statements.)

Statements of Income and Retained Earnings

(In Thousands of Dollars except Per Share Data)

Years ended December 31	2002	2001	2000
Revenue			
Sales, less returns	**$93,279**	$86,599	$74,985
Other	**2,064**	2,126	1,486
	95,343	88,725	76,471
Expenses			
Operating (notes 2 and 11)	**45,119**	43,470	37,512
Editorial, selling, general, and administrative	**32,498**	28,566	26,831
Amortization (note 7)	**7,829**	5,750	4,458
Foreign exchange loss	**529**	269	411
Interest	**111**	20	97
	86,086	78,075	69,309
Income before income taxes	**9,257**	10,650	7,162
Provision for (recovery of) income taxes (note 5)			
Curren	**2,998**	4,964	4,183
Future	**103**	(945)	(1,660)
	3,101	4,019	2,523
Net income for the year	**6,156**	6,631	4,639
Retained Earnings			
Retained earnings, beginning of year	**52,447**	46,894	44,009
Dividends paid to shareholders ($0.60 per share; 2001–$0.54 per share; 2000–$0.54 per share)	**(1,198)**	(1,078)	(1,080)
Retained earnings, end of year	**$57,405**	$52,447	$46,894
Earnings per share			
Basic–net income for the year	**$ 3.08**	$ 3.32	$ 2.32
Diluted–net income for the year	**$ 3.08**	$ 3.32	$ 2.32

(See accompanying notes to financial statements.)

Statements of Cash Flows

(In Thousands of Dollars)

Years ended December 31	2002	2001	2000
Operating Activities			
Net income for the year	**$ 6,156**	$ 6,631	$ 4,639
Add (deduct) non-cash items			
Amortization (note 7)	**7,829**	5,750	4,458
Future income taxes	**103**	(945)	(1,660)
	14,088	11,436	7,437
Net change in non-cash working capital balances related to operations (note 10)	**(8,486)**	11,917	(7,024)
Cash provided by operating activities	**5,602**	23,353	413
Investing Activities			
Prepublication costs	**(7,532)**	(7,530)	(6,268)
Additions to capital assets	**(4,058)**	(1,571)	(1,185)
Cash used in investing activities	**(11,590)**	(9,101)	(7,453)
Financing Activities			
Dividends paid to shareholders	**(1,198)**	(1,078)	(1,080)
Cash used in financing activities	**(1,198)**	(1,078)	(1,080)
Net increase/(decrease) in cash during the year	**(7,186)**	13,174	(8,120)
Cash, beginning of year	**21,307**	8,133	16,253
Cash, end of year	**$14,121**	$21,307	$ 8,133

(See accompanying notes to financial statements.)

Notes to Financial Statements

(Tabular amounts are in Thousands of Dollars)

1. Summary of Significant Accounting Policies

The accompanying financial statements of McGraw-Hill Ryerson Limited (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles. The most significant accounting policies are as follows:

Inventories

Inventories are stated at the lower of cost, on a first-in, first-out basis, and net realizable value.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis at the following annual rates:

Building 2 1/2%
Computer equipment 3 to 7 years
Furniture, fixtures, and equipment 10% to 20%

Prepublication costs

Prepublication costs include direct labour, preparation, and plate costs, which are amortized from the year of copyright over the lesser of five years, and the expected sales life of the related publication.

Contracts, copyrights, trademarks, agency rights, and goodwill

During 2002, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants (the "CICA") relating "Goodwill and Other Intangible Assets." Pursuant to the new recommendations, goodwill is no longer amortized but is subject to an annual review for impairment, which consists of a comparison of the fair value of the assets to their carrying value. During the year, the Company tested the amount allocated to goodwill and determined that no provision for impairment was required. The change in accounting policy resulted in a reduction in amortization expense of $13,000 for 2002.

Costs of contracts, copyrights, trademarks, agency rights, and goodwill were being amortized over the lesser of their useful lives or 40 years.

Foreign exchange translation

Foreign cash balances and amounts receivable from or payable to foreign affiliates are translated into Canadian dollars at the rates of exchange prevailing at the year end. Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rates at the date of the transactions. Any resulting gains or losses are included in net income for the year.

Revenue recognition

The Company recognizes revenue for product sales, net of estimated sales returns, when the products are shipped to customers, which is also when title passes to the customer.

Other revenue is comprised mainly of rental property, interest and other miscellaneous income, and is recognized as earned on a monthly basis.

Pension costs

The Company has a defined contribution pension plan for all employees for which the Company's contributions are expensed as incurred. Total pension expense during the year is $655,000 (2001–$568,000; 2000–$545,000).

Income taxes

The Company uses the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings per share

The weighted average number of shares used in the computation of both basic and diluted earnings per share for 2002 is 1,996,638 (2001–1,996,638; 2000–1,996,638).

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

2. Related Party Transactions

The Company is a subsidiary of The McGraw-Hill Companies, Inc., which owns 70.1% of the outstanding common shares. Under long-standing arrangements, the Company, in the normal course of business, purchases books and educational materials from the parent company and various international subsidiaries of The McGraw-Hill Companies, Inc. The Company, also in the normal course of business, sells books and educational materials to various international subsidiaries of The McGraw-Hill Companies, Inc. These purchases and sales are recorded at their exchange amounts. In addition, amounts due from the parent company and common-controlled enterprises are derived from the reimbursement of costs. Terms of payment vary from 10 days with cash discount to 120 days, net from the transaction date, and all amounts are non-interest bearing.

Amounts due from parent and affiliated companies consist of the following:

	2002	2001	2000
Parent	**$4,707**	$2,367	$2,973
Common-controlled enterprises	**1,693**	1,028	4,224
	$6,400	$3,395	$7,197

Amounts due to parent and affiliated companies consist of the following:

	2002	2001	2000
Parent	**$24,584**	$19,726	$15,833
Common-controlled enterprises	**48**	—	7
	$24,632	$19,726	$15,840

Related party transactions with parent and affiliated companies consist of the following:

	2002	2001	2000
Acquisition of capital assets from the parent company	**$ 2,500**	—	—
Inventory purchases			
Parent	**$44,877**	$40,563	$34,123
Common-controlled enterprises	**135**	112	78

3. Capital Assets

Capital assets consist of the following:

	2002			2001			2000		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	**$ 3,598**	**$ —**	**$ 3,598**	$ 3,598	$ —	$ 3,598	$ 3,598	$ —	$ 3,598
Building	**17,741**	**5,023**	**12,718**	17,756	4,580	13,176	17,680	4,145	13,535
Computer equipment	**5,624**	**2,164**	**3,460**	3,442	2,066	1,376	3,308	2,234	1,074
Furniture, fixtures, and equipment	**3,328**	**1,114**	**2,214**	2,476	924	1,552	4,693	3,367	1,326
	$30,291	**$8,301**	**$21,990**	$27,272	$7,570	$19,702	$29,279	$9,746	$19,533

4. Other Assets

Other assets consist of the following:

	2002			2001			2000		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Prepublication costs	**$27,860**	**$13,113**	**$14,747**	$21,105	$7,860	$13,245	$19,130	$9,080	$10,050
Goodwill	**500**	**137**	**363**	500	137	363	500	125	375
Contracts, copyrights, trademarks, and agency rights	**40**	**40**	**—**	40	11	29	40	10	30
	$28,400	**$13,290**	**$15,110**	$21,645	$8,008	$13,637	$19,670	$9,215	$10,455

5. Income Taxes

Under the liability method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Significant components of the Company's future tax assets and liabilities are as follows:

	2002	2001
Current future tax assets		
Allowance for book returns and other items	**$ 2,187**	$ 2,350
Non-current future tax liabilities (assets)		
Capital assets	**$ 2,926**	$ 2,739
Pre-publication costs	**(1,347)**	(1,100)
	$ 1,579	$ 1,639

The reconciliation of provision for income taxes computed at the statutory tax rates is as follows:

	Liability method 2002	Liability method 2001	Deferral method 2000
Tax at combined federal and provincial tax rates	**$3,575**	$4,446	$3,159
Manufacturing and processing profits deduction	**(207)**	(332)	(199)
Reduction in future income taxes resulting from statutory tax rate reduction	**(515)**	(272)	(598)
Other	**248**	177	161
	$3,101	$4,019	$2,523

6. Lease Commitments

The Company has entered into operating leases, primarily for equipment, for which the estimated future minimum annual payments are as follows:

2003	$ 312
2004	175
2005	40
	$ 527

7. Amortization

Amortization consists of the following:

	2002	2001	2000
Capital assets	**$1,770**	$1,402	$1,443
Pre-publication costs	**6,030**	4,335	3,002
Contracts, copyrights, trademarks, agency rights, and goodwill	**29**	13	13
	$7,829	$5,750	$4,458

8. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, amounts due from/to affiliated companies, accounts payable and accrued charges, and income taxes recoverable/payable. At December 31, 2002 and 2001, the fair value of the Company's financial instruments approximates their carrying value due to the short-term maturity of these instruments. The Company's five largest customers make up approximately 29% (2001 – 33%; 2000 – 54%) of the accounts receivable balance and approximately 13% (2001 – 19%; 2000 – 15%) of net sales.

9. Segmented Disclosure

The Company is structured on a market-focus basis and operates in three primary market areas: post-secondary education, including universities and community colleges ("Higher Education"); secondary and elementary schools and proprietary colleges ("School"); and trade, professional, and medical, including retailers, distributors, libraries, non-traditional booksellers, direct marketing, and the medical sector ("Trade, Professional, and Medical"). The accounting policies of these operating segments are the same as those described in the summary of significant accounting policies.

	2002					2001				
	Higher Education	**School**	**Trade Professional and Medical**	**Warehouse Fulfillment and Support**	**Total**	Higher Education	School	Trade Professional and Medical	Warehouse Fulfillment and Support	Total
Sales, less returns	**$47,134**	**$34,752**	**$11,393**	**$ —**	**$93,279**	$45,297	$29,422	$11,880	$ —	$86,599
Amortization	**2,013**	**4,306**	**55**	**1,455**	**7,829**	2,482	2,173	36	1,059	5,750
Provision for income taxes	**—**	**—**	**—**	**3,101**	**3,101**	—	—	—	4,019	4,019
Income (loss) before income taxes	**9,618**	**10,823**	**433**	**(11,617)**	**9,257**	9,652	8,435	953	(8,390)	10,650
Total expenditures for additions to capital assets	**340**	**228**	**25**	**3,465**	**4,058**	91	251	34	1,195	1,571
Segment assets	**26,747**	**14,915**	**7,623**	**21,297**	**70,582**	16,089	15,512	9,558	17,419	58,578

Reconciliations

	2002	2001	2000
Segment assets	**$70,582**	$58,578	$55,691
Unallocated assets			
Cash	**14,121**	21,307	8,133
Due from affiliated companies	**6,400**	3,395	7,197
Prepaid expenses and other	**114**	32	357
Future income tax assets	**2,187**	2,350	1,611
Income taxes recoverable	**1,639**	—	427
Contracts, copyrights, trademarks, agency rights, and goodwill	**363**	392	405
Total assets	**$95,406**	$86,054	$73,821

10. Statements of Cash Flows

The net change in non-cash working capital balances related to operations consists of the following:

	2002	2001	2000
Accounts receivable	**$ (2,568)**	$ (138)	$ (78)
Inventories	**(5,762)**	598	1,143
Prepaid expenses and other	**34**	342	(26)
Income taxes recoverable/(payable)	**(3,724)**	2,512	(2,324)
Due from affiliated companies	**(3,005)**	3,802	(4,503)
Accounts payable and accrued charges	**1,633**	915	(736)
Due to parent and affiliated companies	**4,906**	3,886	(500)
	$ (8,486)	$11,917	$(7,024)
Supplemental cash flow information			
Interest paid	**$ 108**	$ 19	$ 97
Income taxes paid	**$ 4,639**	$ 3,884	$ 5,137

11. Operating Expenses

During the year, management evaluated the operations of the Company. In an effort to realign the Company's investments to its long-term strategic goal, activities not generating an acceptable rate of return are being phased out. The costs relating to this realignment are comprised of approximately $196,000 (2001 – $237,000) relating to employee termination and severance, $300,000 (2001 – $585,000) to a write-down of inventory and nil (2001 – $79,000) related to other costs. No further costs related to the realignment are anticipated. The total cost of $496,000 (2001 – $901,000) relating to realignment is included in the operating expenses.

As at December 31, 2002, approximately $196,000 (2001 – $316,000) of these costs remain unpaid and have been included in accounts payable and accrued charges.

Selected Financial Data

The following selected financial data of the Company, as it relates to the nine years ended December 31, 2002, is derived from the audited financial statements of the Company.

Comparative Statement of Income ($000s) — except Per Share Data

Years ended December 31	2002	2001	2000	1999	1998	1997	1996	1995	1994
Revenue	**$95,343**	$88,725	$76,471	$77,391	$68,356	$61,883	$44,163	$38,544	$38,281
Expenses	**86,086**	78,075	69,309	66,924	58,999	54,072	41,154	36,450	38,237
Income Taxes	**3,101**	4,019	2,523	4,618	4,150	3,363	1,392	472	18
Income from continuing operations	**$ 6,156**	$ 6,631	$ 4,639	$ 5,849	$ 5,207	$ 4,448	$ 1,617	$ 1,622	$ 26
Income from continuing operations per share	**$ 3.08**	$ 3.32	$ 2.32	$ 2.93	$ 2.61	$ 2.23	$ 0.81	$ 0.81	$ 0.02
Loss from discontinued operations net of tax	**—**	—	—	—	—	—	—	—	$ (7,345)
Net income (loss)	**$ 6,156**	$ 6,631	$ 4,639	$ 5,849	$ 5,207	$ 4,448	$ 1,617	$ 1,622	$ (7,319)
Net income (loss) per share	**$ 3.08**	$ 3.32	$ 2.32	$ 2.93	$ 2.61	$ 2.23	$ 0.81	$ 0.81	$ (3.67)
Dividends paid per share	**$ 0.60**	$ 0.54	$ 0.54	$ 0.50	$ 0.40	$ 0.20	$ 0.20	$ 0.20	$ 0.15
Balance Sheet Data									
Total Assets	**$95,406**	$86,054	$73,821	$74,689	$62,348	$55,005	$55,103	$48,176	$50,843

The following table illustrates comparative results for the four quarters of 2002, 2001 and 2000.

Quarterly Income Statement ($000s) — except Per Share Data

	Quarter Ended March 31			Quarter Ended June 30			Quarter Ended Sept. 30			Quarter Ended Dec. 31			Full Year		
	2002	2001	2000	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000
Total Revenue	**$ 8,993**	$ 9,064	$9,450	**$17,884**	$15,723	$11,687	**$47,396**	$42,503	$36,112	**$21,070**	$21,435	$19,222	**$95,343**	$88,725	$76,471
Net Income (Loss) for the period	**$(2,145)**	$(1,178)	$ (590)	**$ 1,030**	$ 562	$ (295)	**$ 7,212**	$ 5,961	$ 5,304	**$ 59**	$ 1,287	$ 220	**$ 6,156**	$ 6,631	$ 4,639
Net Income (Loss) per share	**$ (1.07)**	$ (0.59)	$ (0.30)	**$ 0.52**	$ 0.28	$ (0.15)	**$ 3.61**	$ 2.99	$ 2.66	**$ 0.03**	$ 0.64	$ 0.11	**$ 3.08**	$ 3.32	$ 2.32

President's Club Awards

The Gold Award for Outstanding Contribution

Selection Criteria:

- Selflessly acts for the benefit of others in the Company
- Unfailingly dedicated to fulfilling and exceeding the needs of the organization
- Acts to support McGraw-Hill Ryerson's culture and values
- Impacts organizational results significantly

Award: Gold Coin + $1,000 + Engraved Plaque

2002 Winner — Neil Harris, Inventory (C/S)

The Norma Christensen Editorial Excellence Award

Selection Criteria:

The person or team who best embodies

- The drive and perseverance to create great product with success in the marketplace
- An uncompromising commitment to quality
- The highest editorial standards

Award: $1,000

2002 Winner — Linda Allison, School

The Seary Award for Outstanding Sales

Selection Criteria:

- Sales success in meeting and exceeding the annual sales target
- Tenacity in the pursuit of meeting customer needs
- Working as an outstanding team player to keep their division successful
- Dedication to the culture of McGraw-Hill Ryerson
- Unfailing good humour

Award: $1,000

2002 Winner — Jennifer Lamantia, Higher Education

The Heather Somerville Marketing Excellence Award

Selection Criteria:

The person or team who

- Develops, plans, and executes a successful marketing effort
- Demonstrates initiative, creativity, perseverance, and competitive drive

Award: $1,000

2002 Winner — Higher Education Mobile Learning Team: Joe Saundercook, Nicole Lukach, Mike Ryan, Brook Nymark

The Theresa Courneyea Outstanding Service Award

Selection Criteria:

- The person or team that demonstrates the commitment to quality, teamwork, and creativity in meeting and exceeding the needs of customers

Award: $1,000

2002 Winner — Inventory Team: Sharon Bonello, Guy LaHaye, Connie Gray, Judy Cyr, Ryan Edson, David Fillion

The Murray Lamb Creativity and Innovation Award

Selection Criteria:

- The person or team that develops or effectively implements a creative or innovative idea, product, program, or process that significantly benefits the company

Award: $1,000

2002 Winner — GTP/IMDS Core Team: Linda Amorim, Alex Dimech, Neil Harris, Lorie Montebello, Kathleen Ayow

Throughout the year, 74 Employee Recognition Awards were presented to employees who made a significant contribution to the Company and are recommended to management by anyone in the Company.

Scholarships and Corporate Contribution Programs

The Pat Vidler Scholarship

The Pat Vidler Scholarship for 2002 was presented to:

Samantha Ovenell, daughter of Karen Harley, Marketing Assistant, School Division.

Samantha, or Sam which she prefers, is attending Durham College for her second year where she has been taking Public Relations and General Arts and Science. She also had the good fortune to work in the School Division for the summer of 2002 and got to know all about McGraw-Hill Ryerson and its employees. Sam thoroughly enjoyed her job at MHR and found the experience invaluable in reassessing her future goals and aspirations.

Sam has a number of interests and hobbies that her studies have helped her develop more fully, such as photography, graphic design, marketing and merchandising strategies, and writing. Her time at McGraw-Hill Ryerson gave Sam the opportunity to put her interests and skills to use in a real-life situation and rewarded her with the great sense of satisfaction for a job well done.

Corporate Contribution Programs

McGraw-Hill Ryerson Limited believes Canadians will flourish in communities that are healthy, well-educated, culturally rich, and socially secure. The Company will support programs that increase the abilities of people in our communities to learn, to grow intellectually, to master new skills, and to maximize their individual talents for school, work, and community.

Matching Gift Program

The Company will match any employee's financial gift to any non-profit Canadian organization that supports education, learning, and literacy up to a maximum of $2,000 per employee per year (including the United Way matching contributions). In 2002, there were no matches.

United Way Program

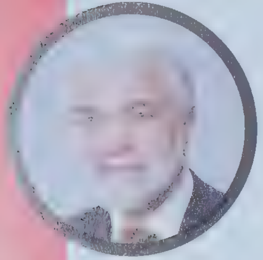
McGraw-Hill Ryerson will match any employee's United Way contribution. When an employee contributes a day's pay to the United Way, he/she may take a paid day off work to perform volunteer work to support the activities of any non-profit organization or a worthy project in the community. In 2002, the Company matched employee contributions of $6,922.20.

Employee Volunteer Support Program

When an employee participates, on a regular basis, for a year or more, in a qualified program of volunteer support through schools and non-profit organizations (education, health or fitness, and social services) and has an ongoing commitment of at least 50 hours a year, McGraw-Hill Ryerson will support the program with a $300 contribution. In 2002, the Company supported two organizations for a total of $600.

Directors and Officers

Robert J. Bahash
Director
Executive Vice President – Chief Financial Officer,
The McGraw-Hill Companies, Inc. since 1988
Joined McGraw-Hill in 1974
Became a Director in 1988
Previous posts include.
Senior Vice President, Finance and Manufacturing
Senior Vice President, Corporate Financial Operations
Member of the Finance Committee



James G. Barnes
Director
Professor of Marketing
Memorial University of Newfoundland since 1968
Became a Director in 1988
Previous posts include:
Dean, Memorial University – 1978-1988
Co-Founder and a Director – Bristol Group
Chairman of the Corporate Governance
and Nominating Committee
Member of the Audit Committee

J. Mark DesLauriers
Director
Partner
Osler, Hoskin & Harcourt LLP
Joined Osler, Hoskin & Harcourt in 1983
Became a Director in 2001
Chairman of the Compensation Committee
Member of the Executive Committee

John D. Dill
Director and Officer
President and Chief Executive Officer
McGraw-Hill Ryerson Limited
Joined McGraw-Hill Ryerson in 1993
Became a Director in 1993
Previous positions include:
President, John Wiley and Sons Canada Limited
Senior management positions at Holt Rinehart and Winston
Member of the Executive Committee
and the Finance Committee

Robert E. Evanson
Director
President, McGraw-Hill Education,
The McGraw-Hill Companies, Inc. from 1999 – February 2003
Became a Director in 1998
Previous positions include:
Executive Vice President of the McGraw-Hill Education Group
President, Higher Education and Consumer Group
Executive Vice President, Corporate Development
Member of the Executive Committee and the Compensation Committee

Brian D. Heer
Director
Group President, McGraw-Hill Higher Education, Professional and International
Publishing, The McGraw-Hill Companies, Inc. since January 2003
Joined The McGraw-Hill Companies, Inc. in 1999
Became a Director in 2001
Previous positions include:
President, International Publishing Group
President, Prentice Hall Canada
Executive Vice President, International Thomson Publishing
Scientific, Technical, Medical and Professional Group in the U.S.
President and CEO of Van Nostrand Reinhold
Member of the Audit Committee

Henry Hirschberg
Director
President, McGraw-Hill Education,
The McGraw-Hill Companies, Inc. since 2002
Became a Director in 2003
Previous positions include:
Group President, McGraw-Hill Higher Education, Professional and International
President, Pearson Higher Education Group
Member of the Executive Committee and the Compensation Committee

H. Ian Macdonald
Director and Officer
Chairman of the Board of Directors
of McGraw-Hill Ryerson Limited since 1996
Became a Director in 1985
President Emeritus and Professor of Economics and
Public Policy at York University
Officer of the Order of Canada
Chairman of the Board of Governors of The Commonwealth of Learning
Chairman of the Finance Committee
Member of the Executive Committee, Corporate Governance
and Nominating Committee, and the Compensation Committee

Manon R. Vennat

Director

Vice President, Managing Director and Chairman, SpencerStuart in Montreal since 1986
Became a Director in 1988
Previous positions include:
Vice President, Administration, General Counsel and Secretary to the Board of Directors at AES Data
Member of the Bar of Quebec
Member of the Order of Canada
Chairman of the Audit Committee
Member of the Corporate Governance and Nominating Committee, and the Compensation Committee

Poling Y. Chu

Officer

Executive Vice President, Chief Financial Officer and Secretary-Treasurer
Became an Officer in 2001
Prior Employment – Chief Financial Officer of a dot.com company and for nine years was Senior Vice President at Prentice-Hall Canada

Petra M. Cooper

Officer

President,
Higher Education Division
Became an Officer in 1997
Prior Employment – John Wiley and Sons U.S. as Vice President and National Sales Manager

Nancy L. Gerrish

Officer

President,
School Division
Became an Officer in 1999
Prior Employment – Director of Sales and Marketing for the School Division at McGraw-Hill Ryerson Limited

Marshall I. Morris

Officer

Executive Vice President,
Customer Satisfaction
Became an Officer in 1996
Prior Employment – Canadian Tire Corporation – held various management positions

Carl Posluns

Officer

Executive Vice President,
Human Resources
Became an Officer in 1994
Prior Employment – Vice President, Human Resources, Smithbooks (FICG Inc.)

Clive Powell

Officer

Executive Vice President
Editorial, Design, and Production
Became an Officer in 1997
Prior Employment – Director of Production at McGraw-Hill Ryerson Limited

Julia O. Woods

Officer

President,
Trade, Professional, and Medical Division
Became an Officer in 1994
Prior Employment – Vice President, Professional Reference and Trade at John Wiley and Sons Canada Limited

Shareholder and Corporate Information

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Poling Y. Chu
Secretary-Treasurer
Telephone: (905) 430-5032

Annual and Special Meeting of Shareholders
Victoria Room
Le Royal Meridien King Edward Hotel
Toronto, Ontario
Tuesday, June 17, 2003
at 11:00 a.m.

Exchange Listings
The Toronto Stock Exchange
Stock Symbol: MHR

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Barristers & Solicitors
Toronto

Auditors
Ernst & Young LLP
Chartered Accountants
Toronto

Bankers
Citibank Canada

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Editor: Anne Nellis
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Investor Relations Co-ordinator: Linnie Walsh
Design and Formatting: Dianna Little
Officer Photos: Rodney Daw

This report has been printed on recyclable, acid-free papers.

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Dividends

Dividend Policy

Dividends have been paid on the common shares of the Company at an annual rate of sixty cents (60¢) per share since this rate was established with the quarterly payment of fifteen cents (15¢) per share on May 23, 2002. At their meeting held on April 18, 2002, the Board of Directors approved an increase in the quarterly dividend to 15¢ per share to shareholders of record as at May 2, 2002. This dividend increase took effect with the payment of the first quarter dividend on May 23, 2002.

The determination to declare or pay dividends is entirely at the discretion of the Board of Directors of the Company, based upon recommendations from the Finance Committee of the Board of Directors, and will depend upon the Company's financial condition, results of operations, capital requirements, and such other factors as the Board of Directors and Finance Committee consider relevant.

Comparison: Net Profit/Share Price/Dividend Payout